

State Budget Outlook

A Presentation to:
The S.C. Commission on Higher Education

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Craig H. Parks, MPA
Sr. Research & Budget Analyst
Senate Finance Committee

In-flec-tion (noun)- a bend or angle. In mathematics, a change of curvature

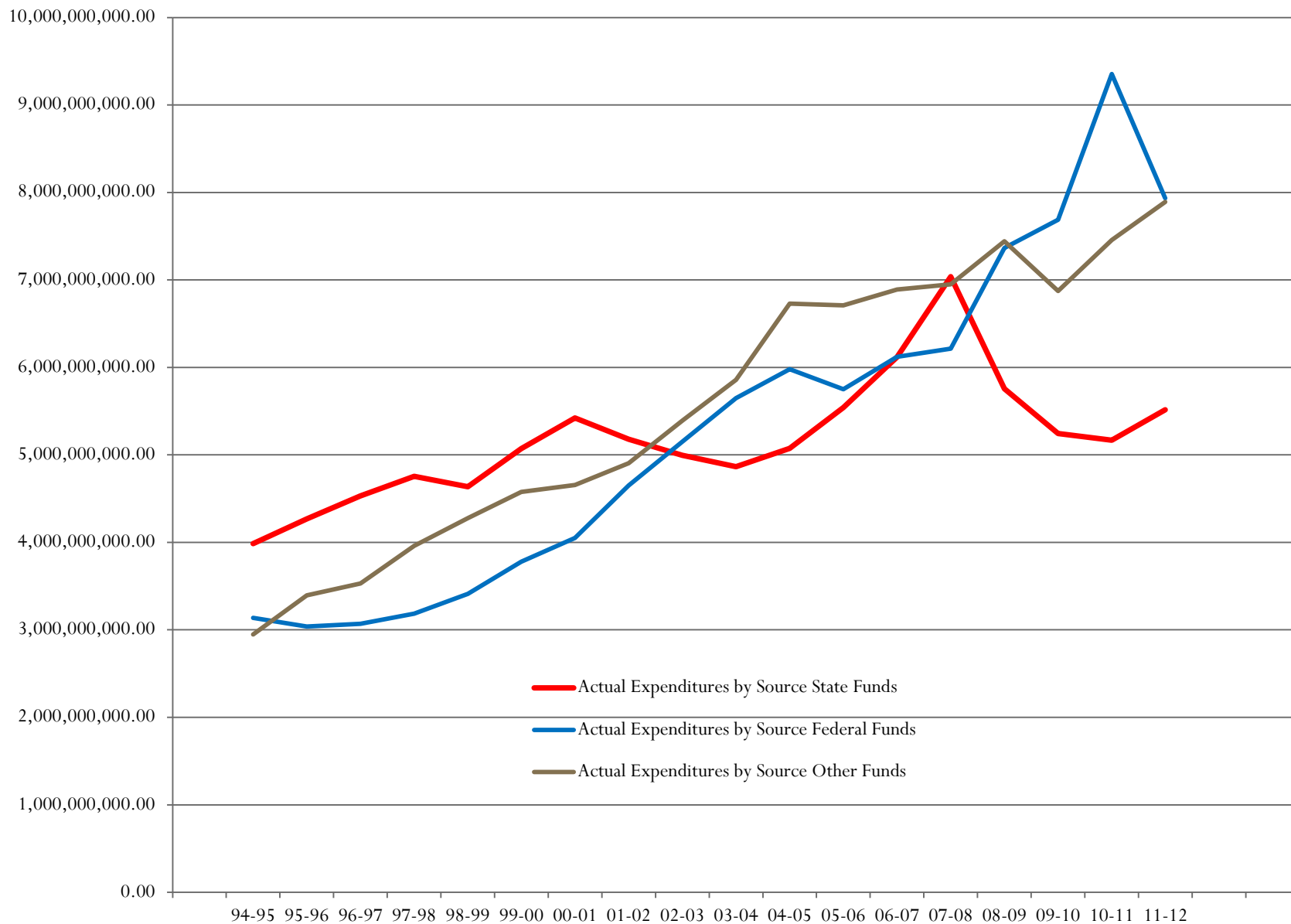




Now ...

Some South Carolina State Budget Facts for Context

Actual Expenditures by Source



Top 10 Statewide Other Revenue Sources Fiscal Years 1994-95 and 2011-12

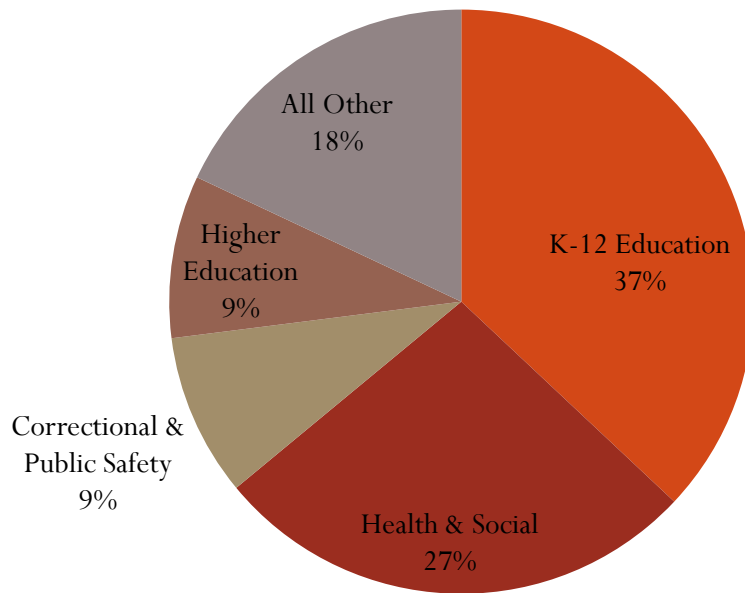
Description		Amounts			Avg. Annual
		1994-95	2011-12	Differences	% Change
<u>Other Funds - Earmarked/Restricted</u>					
1	University Fees	428,475,336	2,083,779,337	1,655,304,001	9.8%
2	Sales Tax - EIA	366,650,309	590,416,245	223,765,936	2.8%
3	Medicare and Medicaid Reimbursements	375,563,268	469,697,227	94,133,959	1.3%
4	Gasoline Tax	214,376,940	418,411,164	204,034,224	4.0%
5	Auxiliary Enterprises - Sales and Services Contributions Hospitals/ Medicaid Hospital	182,278,795	394,840,921	212,562,126	4.7%
6	MIAA	93,746,470	272,683,726	178,937,256	6.5%
7	Lottery Proceeds	-	268,486,581	268,486,581	-
8	Medicaid CPE	-	197,994,833	197,994,833	-
9	Cigarette Tax - Medicaid	-	157,299,845	157,299,845	-
10	<u>Motor Vehicle Licenses</u>	-	<u>145,693,615</u>	<u>145,693,615</u>	-
Totals (Top 10)		1,661,091,118	4,999,303,494	3,338,212,376	
Totals All			7,728,604,359	65%	

Source: Office of State Budget, Sept. 2013

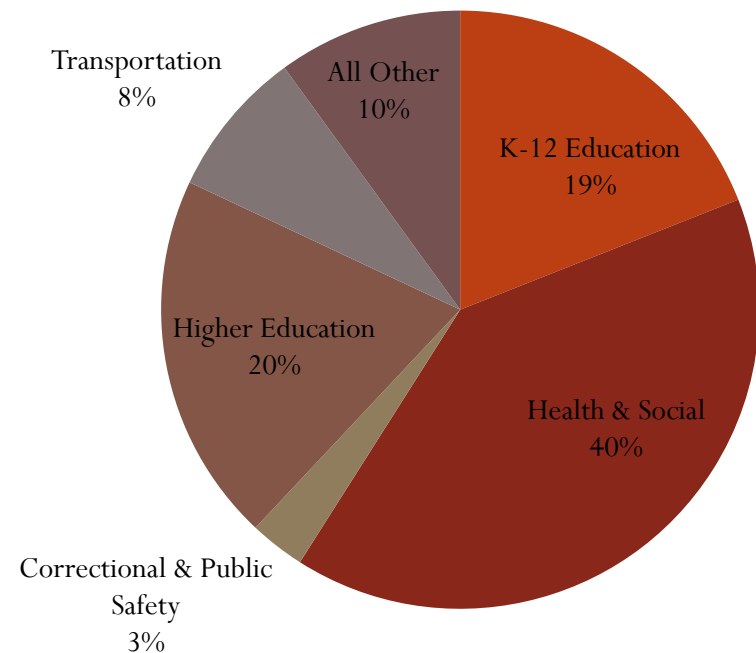
Where is the Money Spent?

FY 2013-14 Appropriations

General Funds



Total Funds

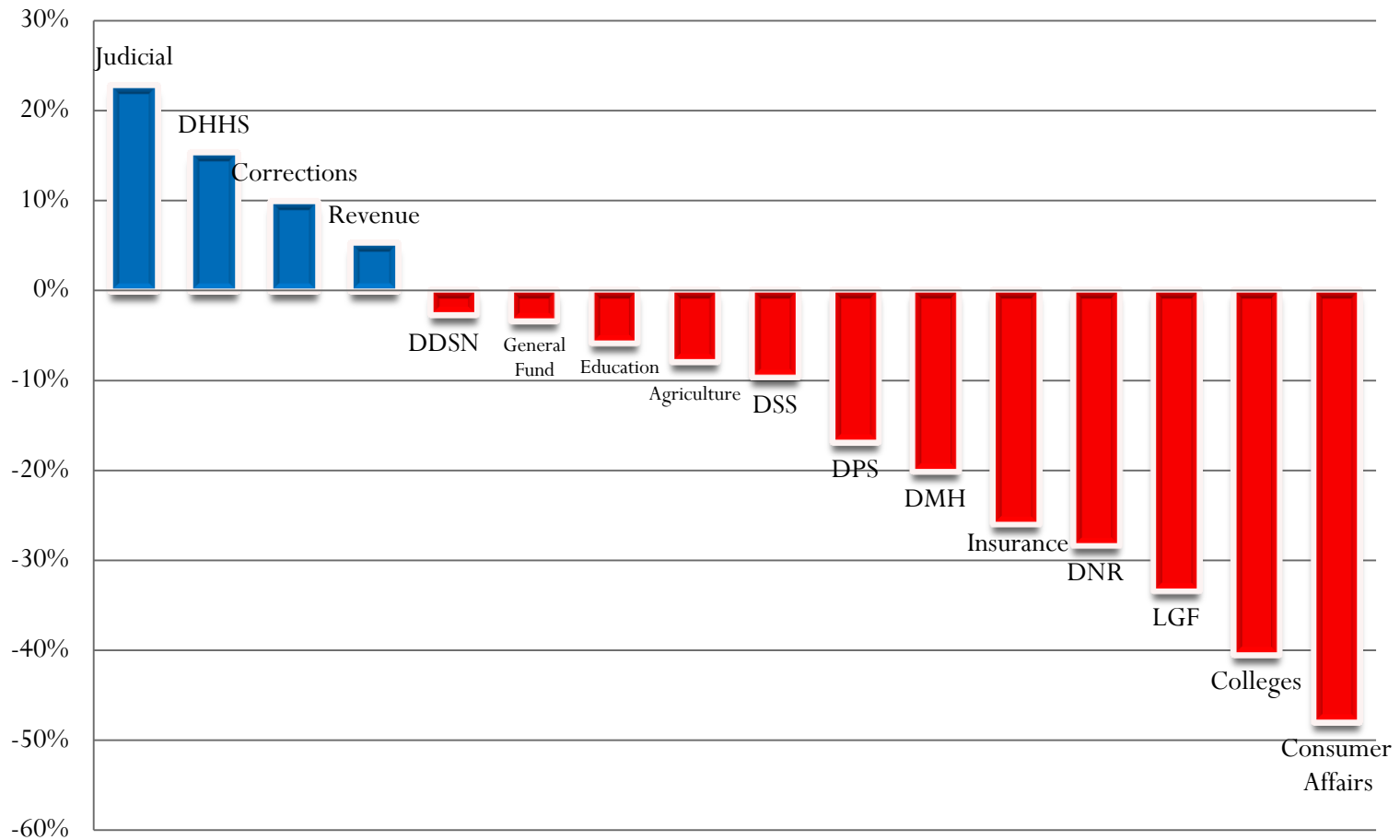


Source: Office of State Budget

Pre & Post Recession– Where We Stand 6 Years Later

	<u>Oct. '07 (FY08)</u>	<u>Today (FY14)</u>
Stock Market (DJA)	14,165	16,010
Unemployment Rate(US/SC)	4.7%/5.6%	7.3%/7.5%
# Unemployed (SC)	119,081	162,613
Avg. W eeks Unemployed (US)	17 weeks	36 weeks
General Fund Revenue Forecast	\$6.9 Billion	\$6.9 Billion
Total Appropriations (SC)	\$20.3 Billion	\$22.5 Billion
Food Stamp Recips (US/SC)	27M/575K	48M/875K
Federal Food Stamp Expend in SC	\$684 Million	\$1.5 Billion
Medicaid Recipients (SC)	888,000	1,014,577
Total Medicaid Expend (SC)	\$4.6 Billion	\$5.3 Billion
Base Student Cost (General Fund)	\$2,476	\$2,101
Higher Ed Funding (State portion)	\$771 Million	\$471 Million
# State Employees (State funded)	33,721	27,201

Cumulative General Fund Changes July 2008 - July 2013



State Budget Crisis Task Force

“The conclusion of the Task Force is unambiguous. The existing trajectory of state spending, taxation and administrative practices cannot be sustained. The basic problem is not cyclical. It is structural. The time to act is now.”

Richard Ravitch (Co-Chair)- Former Lt. Gov. of New York

Paul A. Volcker (Co-Chair)- Former Chairman of the Board of Governors of the Federal Reserve System

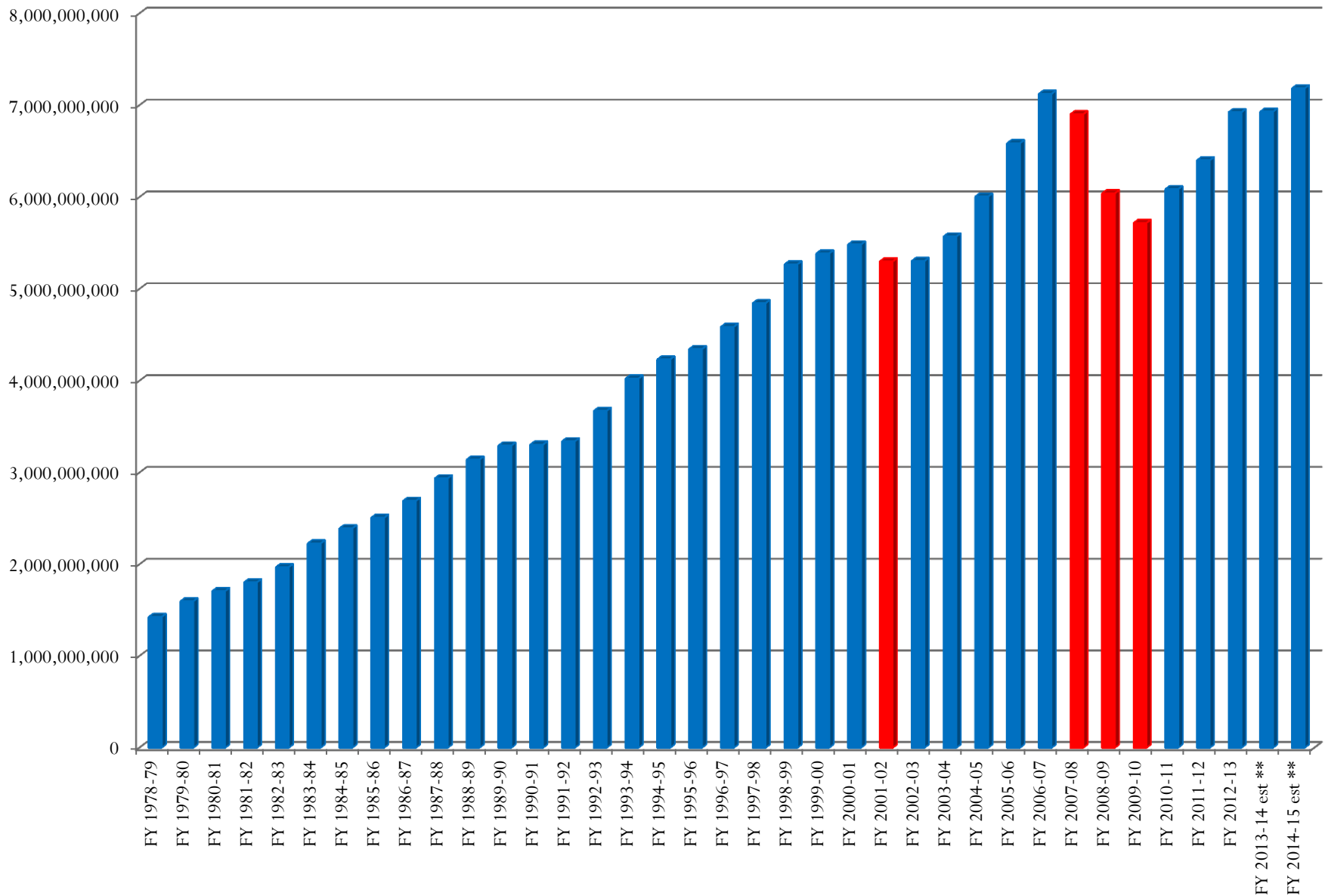
July 17, 2012

State Budget Crisis Task Force

Finding #2: The capacity to raise revenues is increasingly impaired:

- A. Untaxed transactions are eroding the sales tax base. Gasoline taxes are eroding as well, making it more difficult for states to finance roads, highways, and bridges.
- B. Income taxes have become increasingly volatile, particularly during and after the recent economic crisis.

Total General Fund Revenue



General Fund Revenue Outlook

Growth = (S)Low and Steady

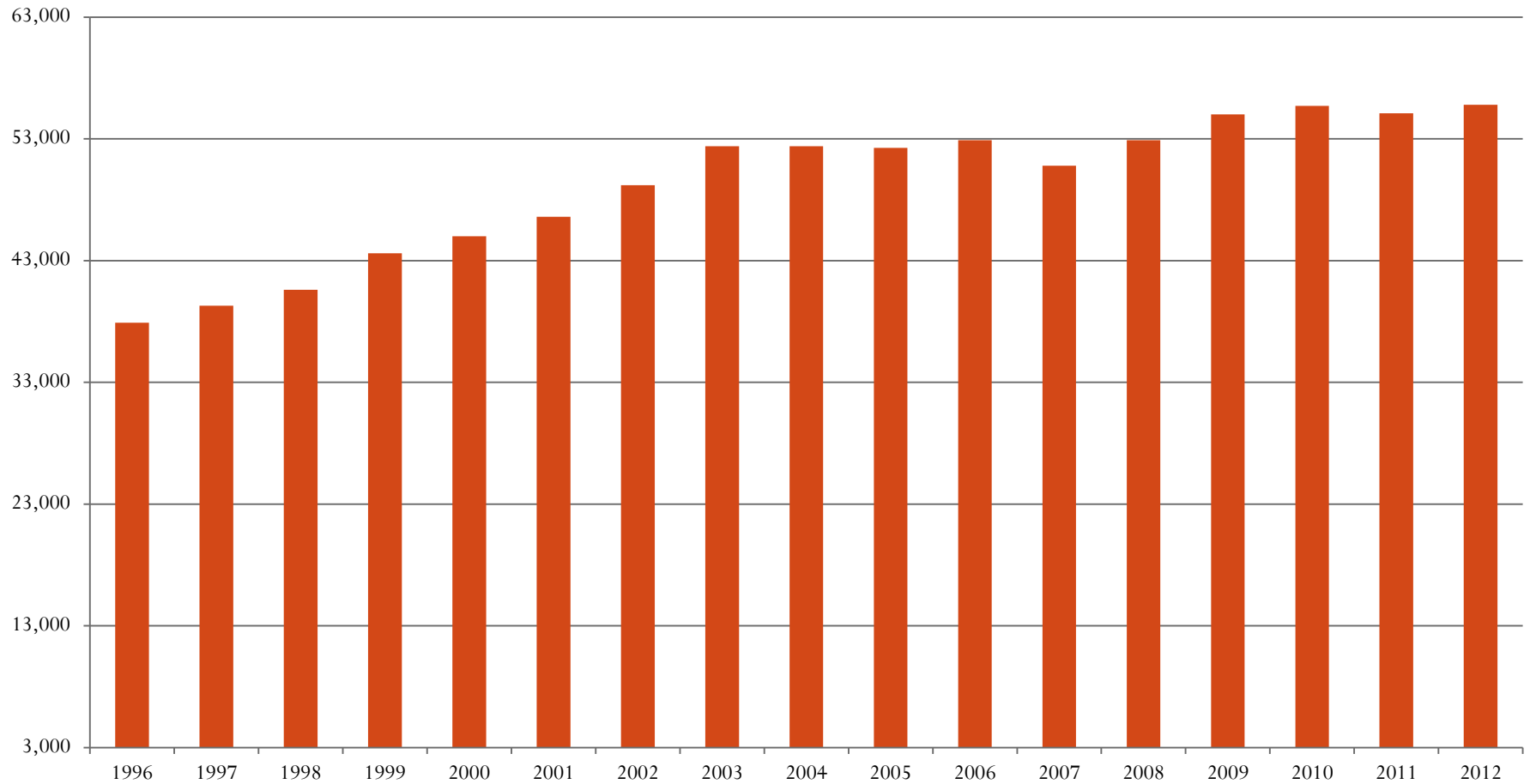
- **FY 2012-13** was: 8.2% growth (Final)
- **FY 2013-14** is: 0.1% growth (Estimate)*
- BEA's Preliminary Forecast indicates**
FY2014-15: 3.7% growth (Forecast)

*BEA 11/18/13

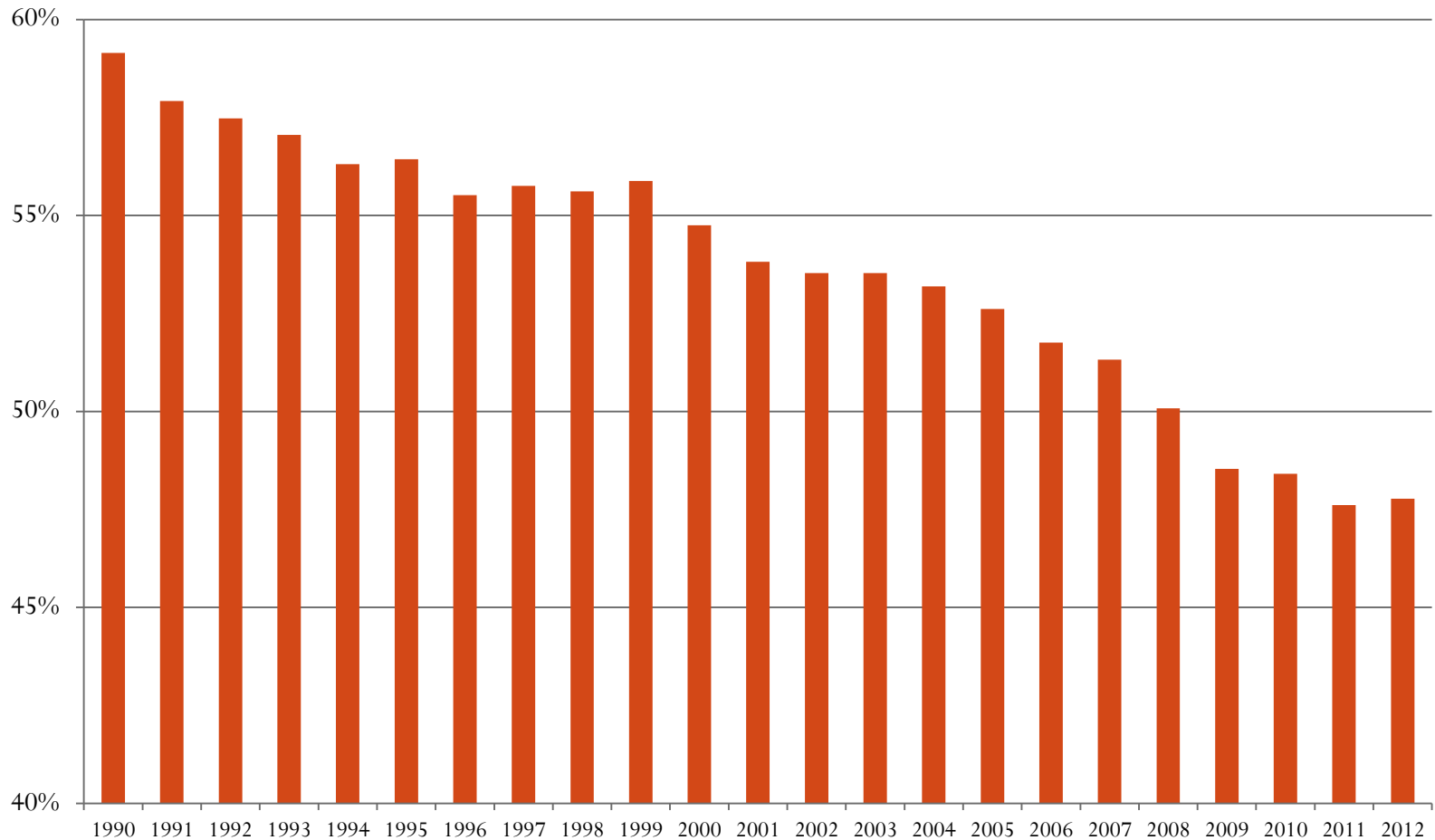
**BEA 11/18/13

Selected South Carolina Data Series Calendar Years 1990-2012

SC Median Family Income (Dollars)



SC Wages & Salaries as a % of Total Personal Income



South Carolina Economic Indicators September 2013

- **Job creation continues at modest pace in 2013**
- **Housing sector continues to recover**
- **Increasing mortgage rates may rise too fast and choke off housing recovery**
- **Car sales spur production at SC auto parts plants**
- **Weak income growth may reflect weaker sales growth**

FY14 - General Fund Revenue July-November (Actuals)

- General Fund Revenue increased \$104.2 Million or 3.7%. Total Collections were \$2,903.9 million. Adjusting for the expected sales tax transfer of \$14 million to DOT, *General Fund FYTD growth is 2.2%*.
- Retail Sales Tax increased \$42.4 million or 5.2%. Adjusting for the expected transfer of \$14 million to DOT, *Sales Tax FYTD growth is 3.5%*.
- Individual Income Tax increased \$56.4 million or 3.3% tempered in part to a processing/timing issue in November.
- Corporate Income Tax increased \$8.6 million or 11%.
- Corporate License increased \$3.3 million or 19%.
- Insurance Tax declined \$28 million or -38.2% due to expected biennial licensing cycle.

Comparison of Gross and Net Taxable Sales

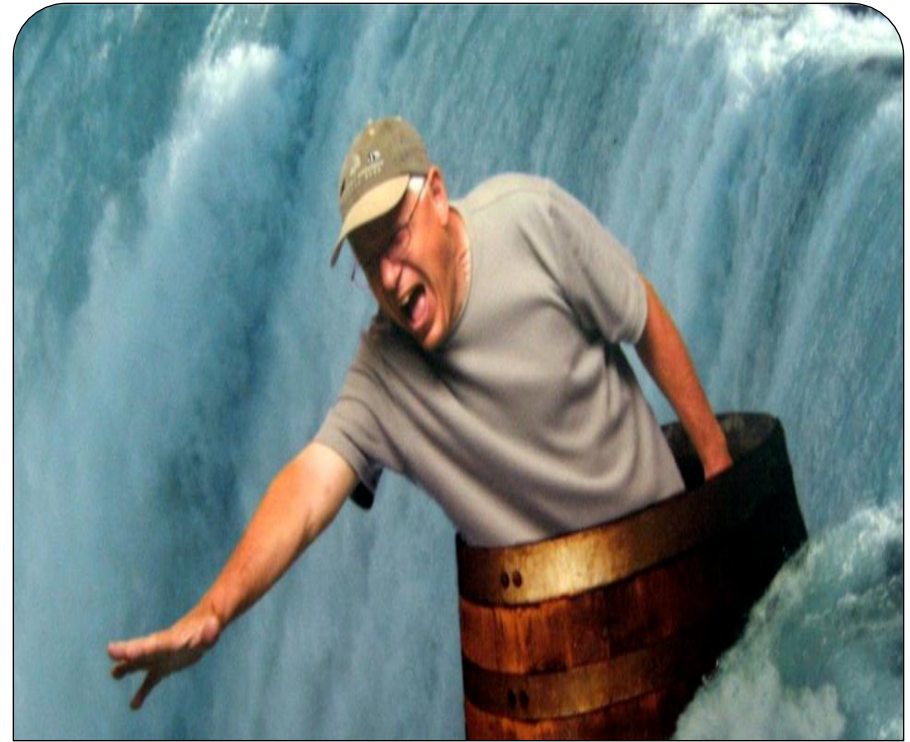
FY 2000 – FY 2013

	<u>FY 2000</u>	<u>FY 2013</u>	
Gross Sales Amount	94,435,505,424	164,440,863,934	4.4%/yr.
Net Taxable Sales Amount	45,199,250,866	56,743,306,956	1.8%/yr.
Percentage of Net Taxable Sales	47.9%	34.5%	

	<u>FY 2012</u>	<u>FY 2013</u>	
Gross Sales Amount	156,213,293,606	164,440,863,934	5.2%
Net Taxable Sales Amount	54,309,990,195	56,743,306,956	4.5%
Percentage of Net Taxable Sales	34.8%	34.5%	

Source: Department of Revenue, Annual Reports.

The Base is Shrinking.



Watershed Moment: Use of General Funds for Transportation Needs



Welcome Transportation to “The Trough”

SC Dept of Transportation General Fund Appropriations for FY12-13 were \$57,270. DOT’s TOTAL funds budget was \$1,401,764,666.

Fiscal Year 2013-14 General Fund Appropriations

Transportation Funding

Sales Tax on Cars Transfer to DOT	\$41 Million (Recurring)	
SIB – Bridges / Interstates	\$50 Million (Recurring)	
Excess 12-13 Revenue to DOT	\$50 Million	
Subtotal		\$141 Million

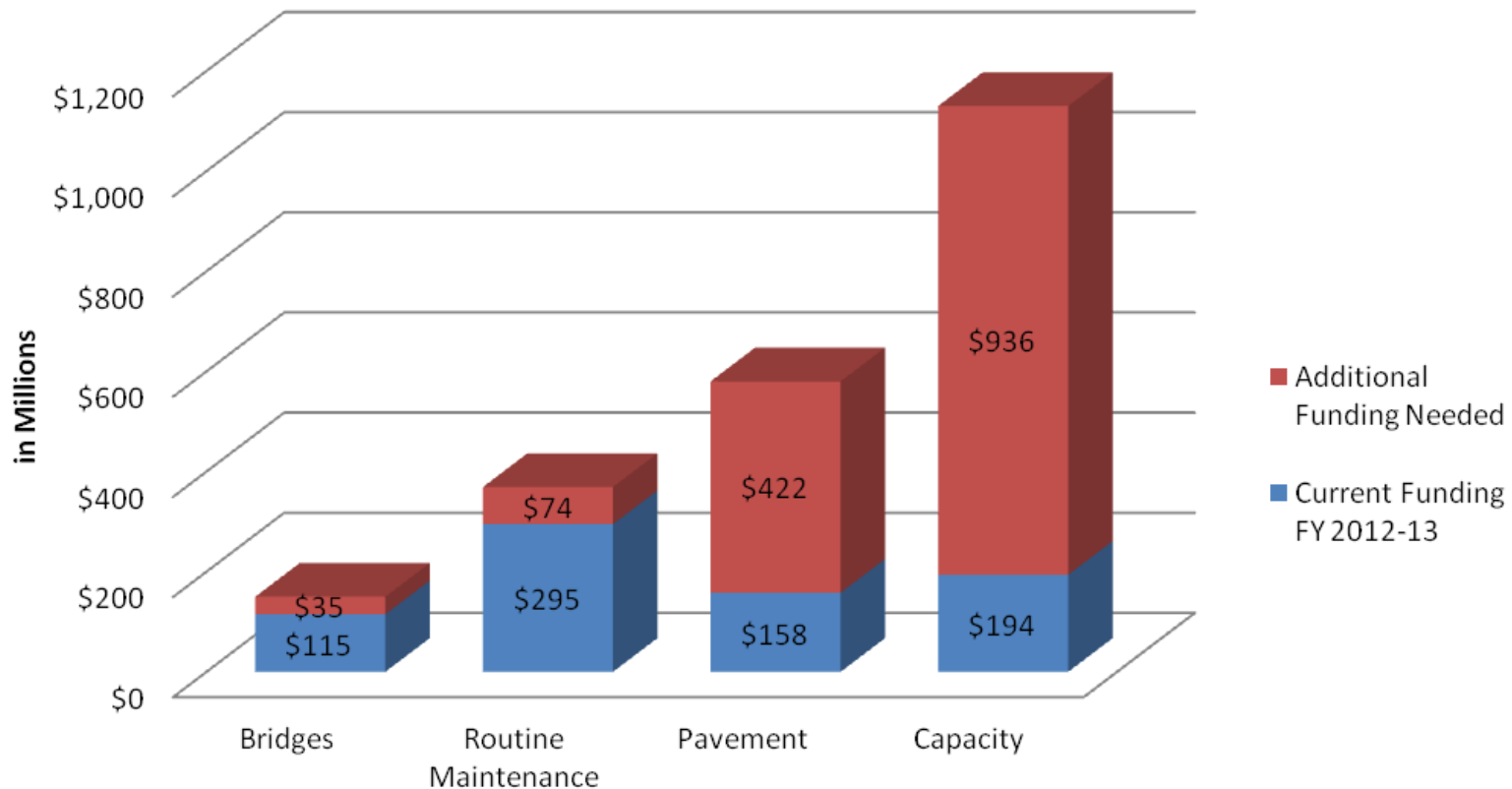
State Department of Education

Education Finance Act	\$77 Million	
Instructional Materials	\$24 Million	
4K Expansion	\$26 Million	
Subtotal		\$127 Million

Health and Human Services (Medicaid)		\$110 Million
Employee Health Insurance		\$54 Million
Small Business Tax Relief		\$40 Million
Local Government Fund		\$30 Million
Department of Commerce Closing Fund		\$16 Million
Homestead Exemption Shortfall		\$12 Million
General Reserve Fund		\$11 Million
ReadySC (Worker Training)		\$8 Million

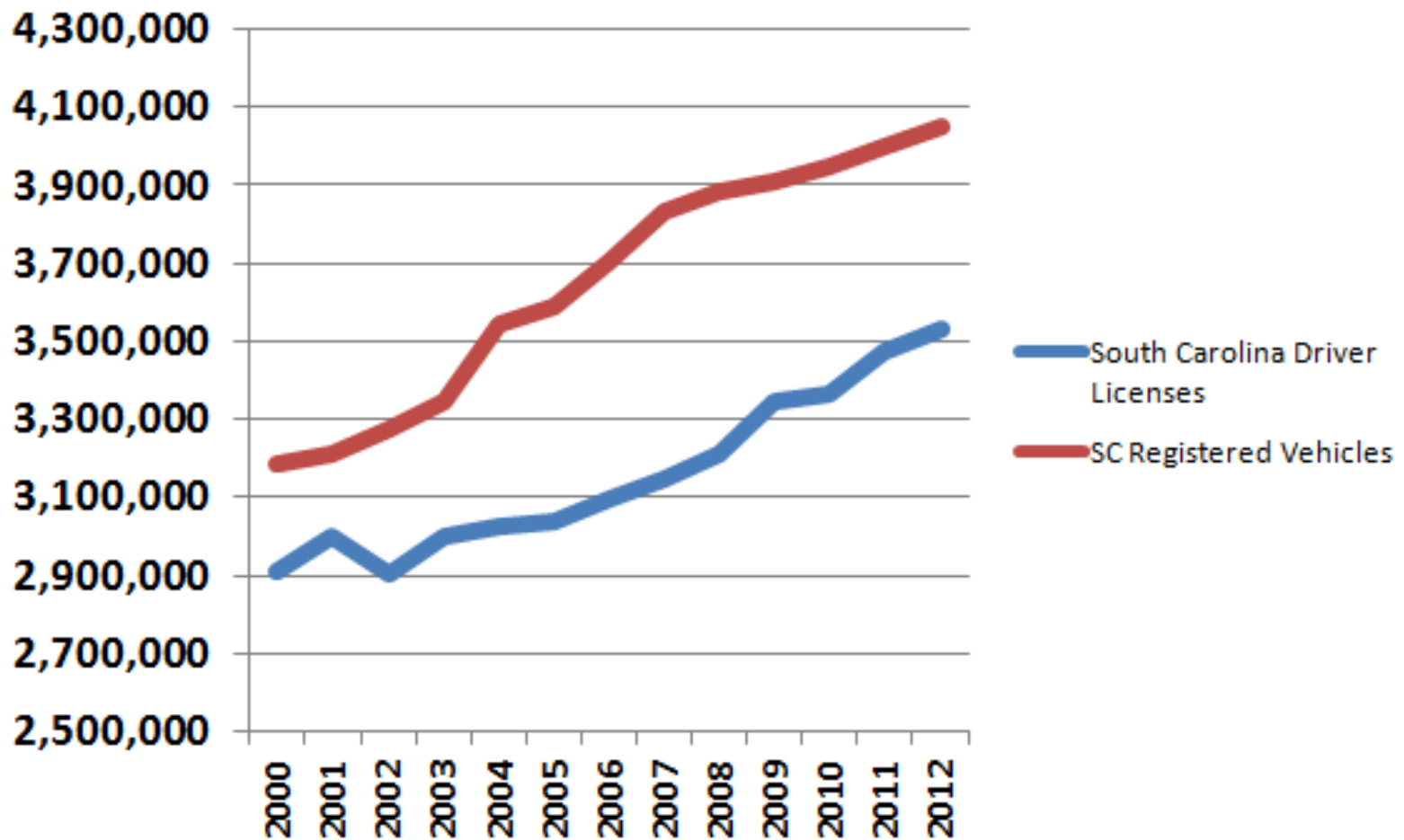
Funding “Good”

SCDOT Total Annual Funding Needs

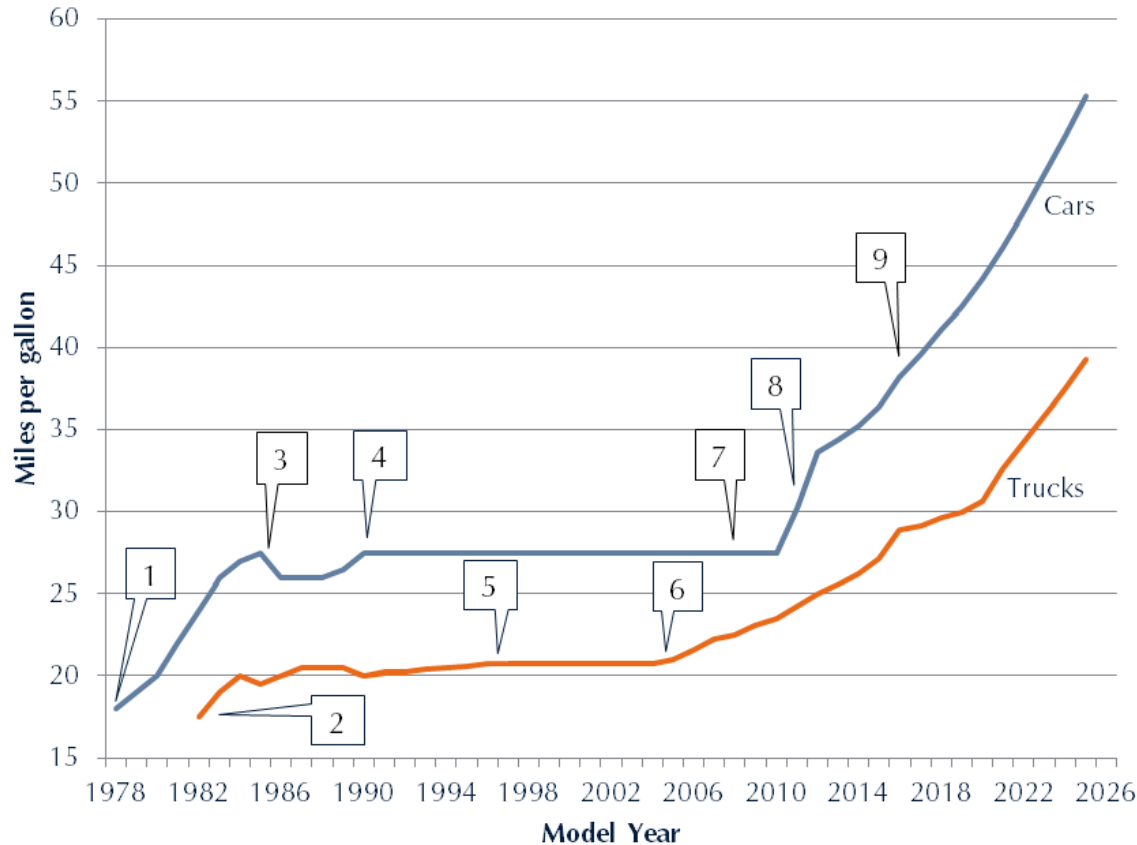


- SCDOT needs an additional \$1.467 B per year for 20 years (total of \$29.3 B) to bring our roads to a level of “Good”

Number of Driver Licenses & Registered Vehicles in South Carolina



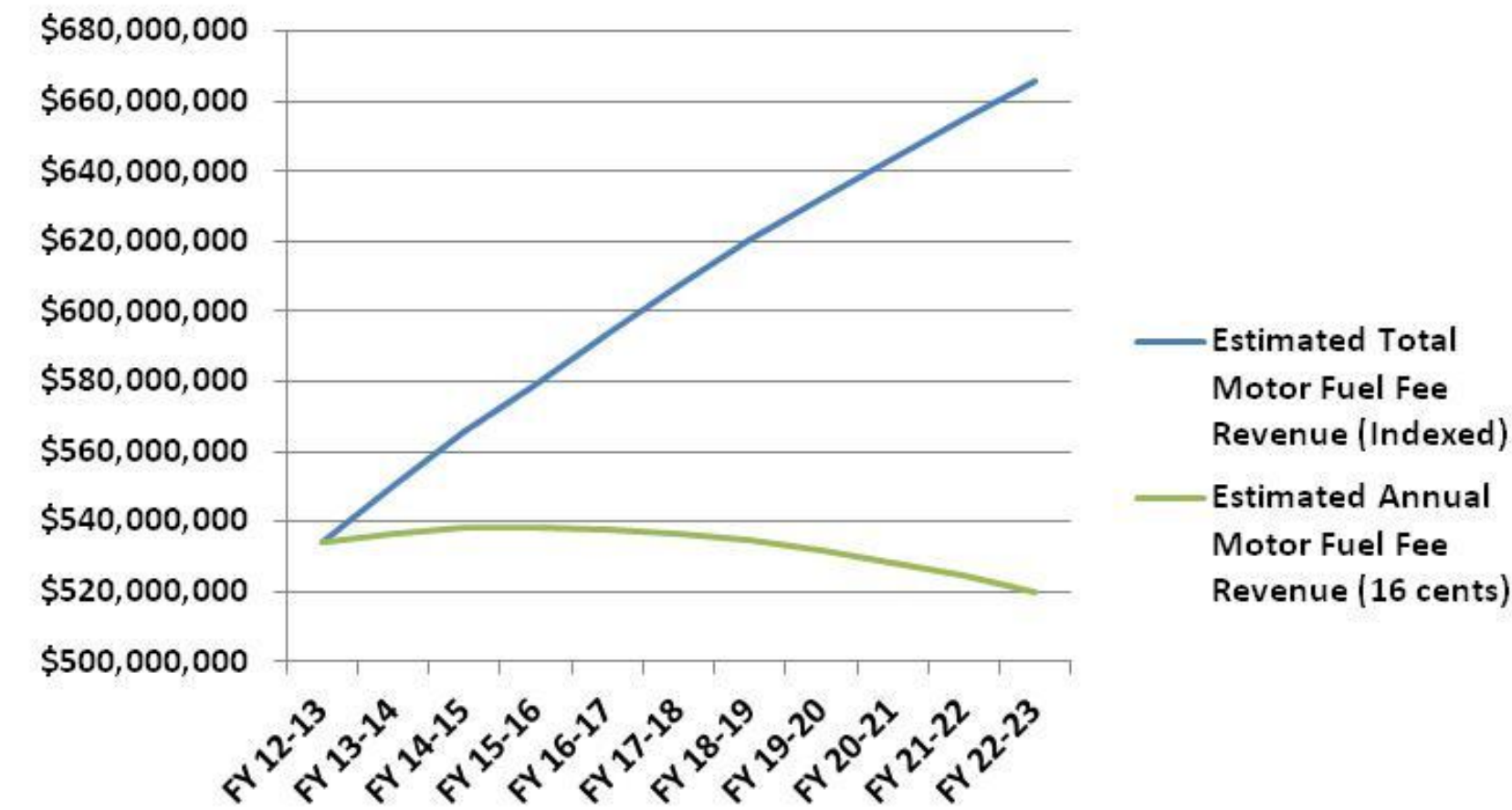
Fuel Economy standard for passenger vehicles from MY 1978-2025



1. 1978-1985: Congress sets car standard (1978-1985)
2. DOT sets truck standard to max feasible (1979-1996)
3. DOT decreased car standard (1986-1989)
4. DOT sets car standard to 27.5 mpg (1990-2010)
5. Congress freezes truck standards at 20.7 mpg (1997-2001)
6. Bush Admin issues new truck targets (2005-2007)
7. EISA changes CAFE to footprint standard (2008-present)
8. Obama Admin issues new car & truck standards (2012-2016)
9. Obama Admin issues new car & truck standards (2017-2025)

Motor Fuel User Fee Revenue Projection

Indexing the Motor Fuel User Fee or Keeping Fee at 16 cents per gallon



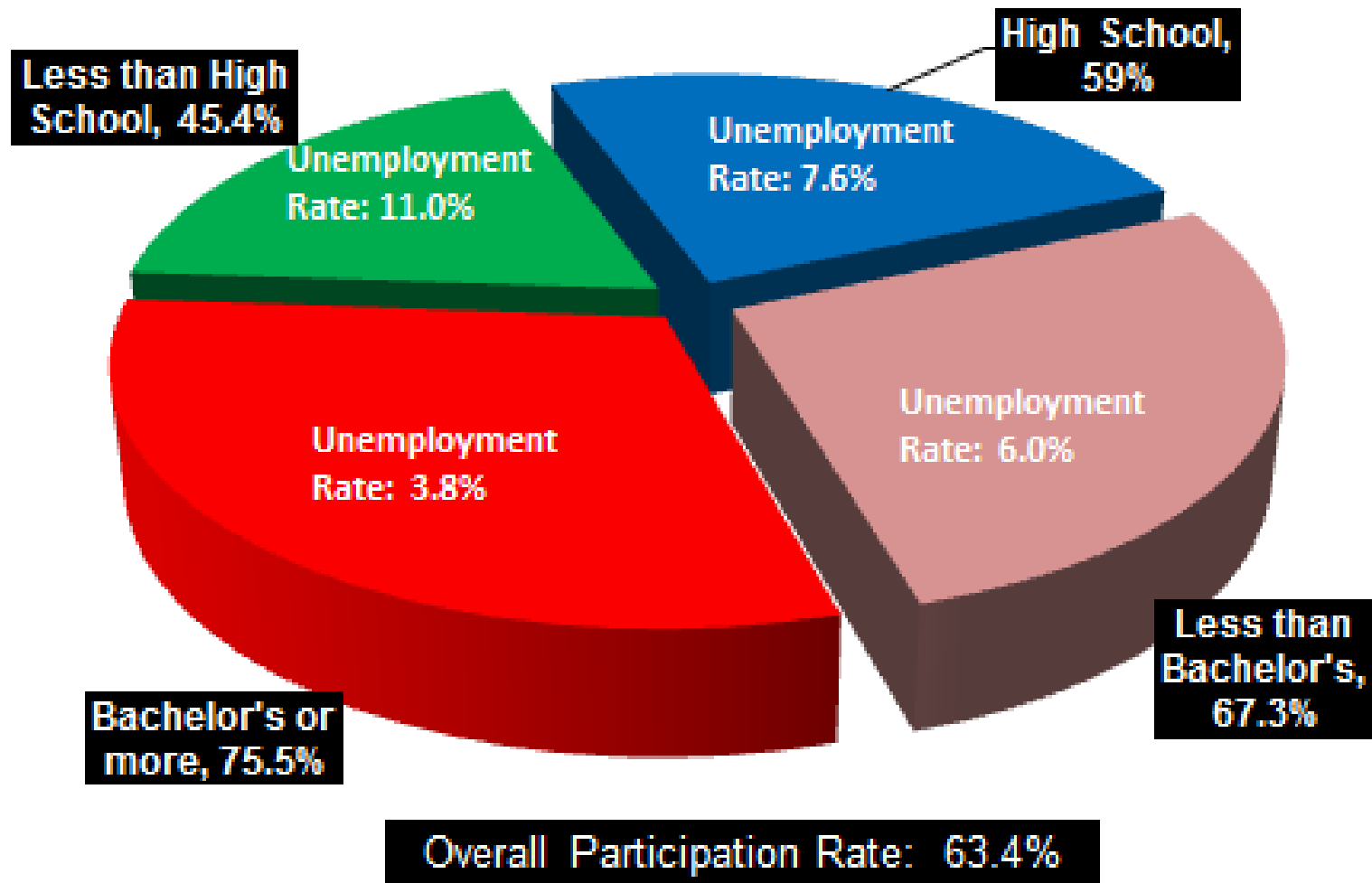
Source: SC Board of Economic Advisors and SFC Staff Calculations

In-flec-tion (noun)- a bend or angle. In mathematics, a change of curvature

The old assumption was that your educational foundation would last your whole lifetime.

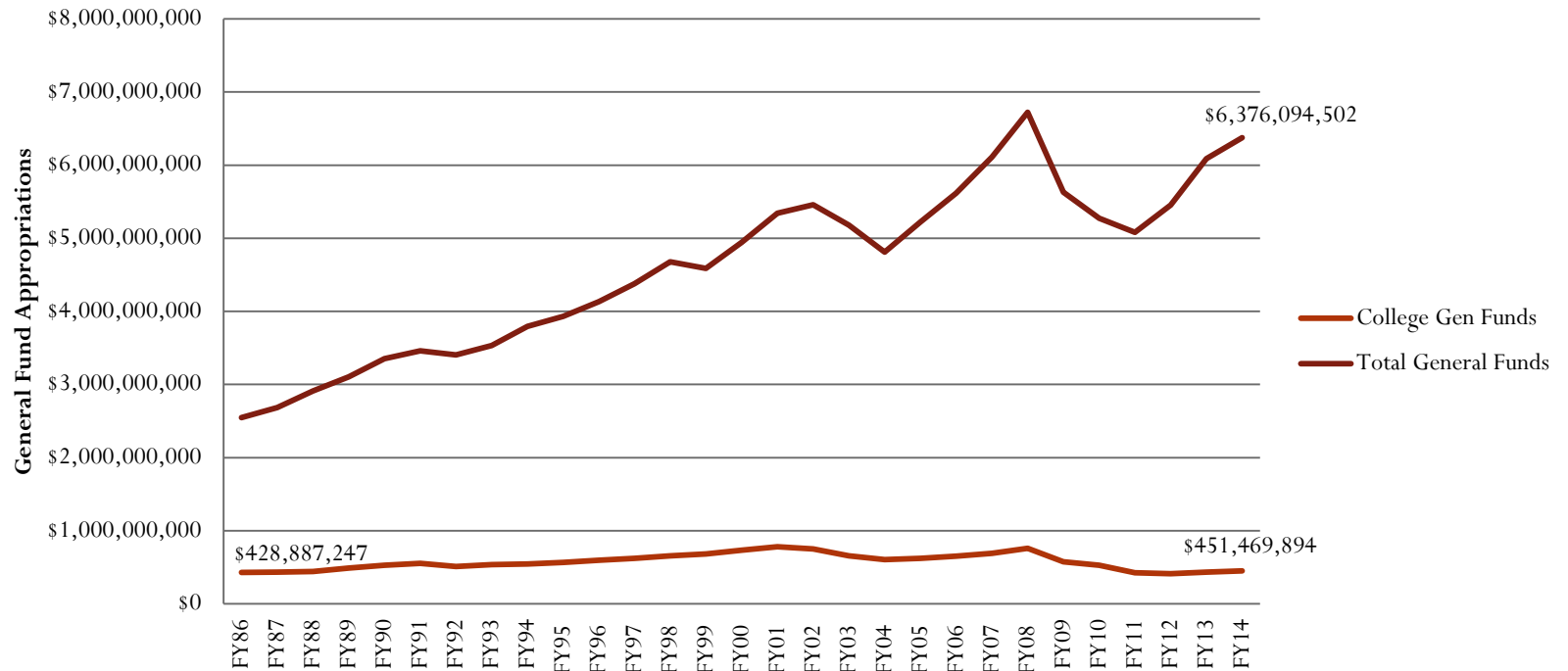
Now the norm is lifelong learning.

Participation Rate by Educational Attainment For those 25 or Older July 2013



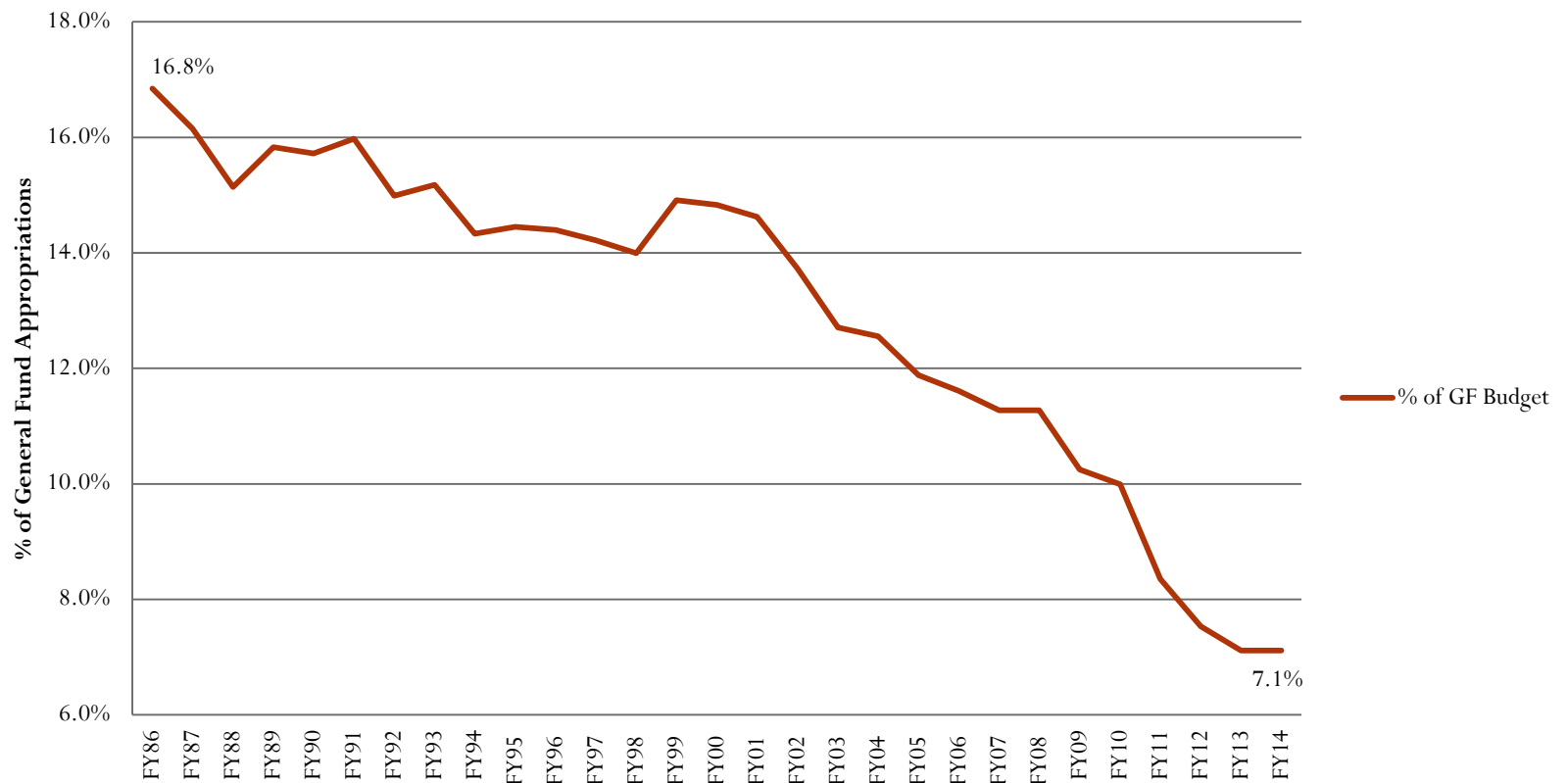
General Fund operating appropriations to colleges are at levels from almost 30 years ago. And that's not adjusted for inflation or enrollment growth...

**State General Funds
Total Appropriations vs. Appropriations
to College Operating Budgets
FY86-FY13**



Colleges base state budgets have eroded compared to the growth in the overall state budget since 1986...

General Fund Operating Appropriations to Colleges as a Share of Total General Fund Appropriations



A Crystal Ball?...Or Anybody's Guess?

An Early Look at FY14-15...

Projected Revenue ("New Money"):

General Fund (Recurring):	\$265.0 Million
General Reserve Fund:	(\$27.0 Million) (Necessary to maintain 5%)
Net General Fund:	\$239.0 Million
General Fund (Non-Recurring):	\$164.0 Million
Capital Reserve Fund:	\$117.0 Million

Possible Expenditures:

Capital Reserve Fund:	\$10.6 Million
K-12 EFA MOE at \$2,101:	\$34.0 Million
K-12 EFA New Money FY15?:	??? (\$537 Million to fully fund)
Local Government Fund	
Maintain FY14:	\$30.0 Million
Statutory FY15:	??? (\$74.9M above \$30M to fund statutory requirement)
Employee Health FY14 Annualize:	\$23.3 Million
Employee Health 2015 (HalfYr.):	??? (+/- \$46.7 Million)
Medicaid New Money FY15?:	??? (\$150 Million Agency Request)
Employee Pay Raise?:	??? (\$15 Million @ 1% (State FTE's only))
Act 388 Shortfall:	??? (FY14 subsidy = \$120M from General Fund)
Transportation/Roads?:	???
One Time Tax Rebates?:	???
Additional Tax Expenditures (Recur)?:	??? (Final \$20 Million of \$60M Small Biz Cut net above)
Higher Education?:	???

Thank You

craigparks@scsenate.gov